REPORT OF EXAMINATION
OF THE

SCPIE IDEMNITY COMPANY

AS OF
DECEMBER 31, 2006

Filed October 22, 2007

TABLE OF CONTENTS

Los Angeles, California
August 29, 2007

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of

SCPIE INDEMNITY COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, 1888 Century Park East, Los Angeles, California 90067.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2006, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

COMPANY HISTORY

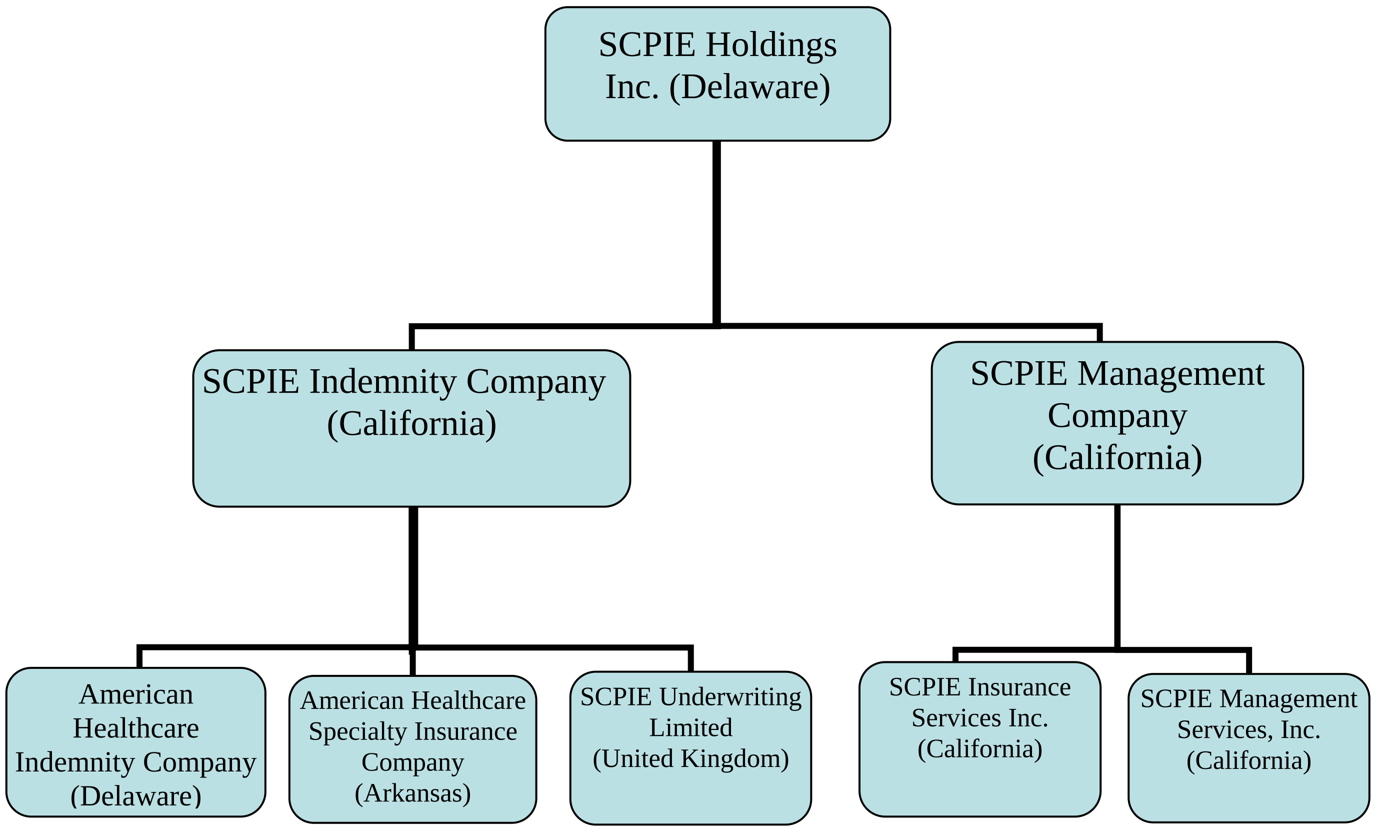
The Company was incorporated in the State of California on December 31, 1993 for the purpose of conducting fire and casualty business and commenced business on October 10, 1995. The Company has been a wholly-owned subsidiary of SCPIE Holdings Inc. since January 1997. Prior to 1997, Southern California Physicians Insurance Exchange, a reciprocal insurer, was the shareholder.

In 2006, the Company paid ordinary dividends of $3 million.

On November, 3, 2006, A.M. Best upgraded the Company from B to B+ recognizing the Company's strengthened overall capitalization and its return to profitability.

MANAGEMENT AND CONTROL

The following organizational chart depicts the Company's relationship within the holding company system:



(*) all ownership is 100%

In 2000, SCPIE Underwriting Limited (SUL), UK, (a corporate member of Lloyds of London) was formed and commenced operations in January 2001. The purpose of SUL was to participate in the Lloyds syndicates and cede the business written to the Company. In May 2005, the Company's parent, SCPIE Holdings Inc., contributed all of the outstanding stock of SUL to the Company and it is now a wholly-owned subsidiary of the Company.

Management of the Company is vested in a four-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2006 follows:

Directors

Name and Residence	Principal Business Affiliation
Mitchell S. Karlan, M.D. Beverly Hills, California	Physician
Jack E. McCleary, M.D. Hidden Hills, California	Consultant
Wedell L. Mosley, M.D. San Bernardino, California	Retired Physician
Donald J. Zuk Manhattan Beach, California	President and Chief Executive Officer SCPIE Indemnity Company

Principal Officers

Name	Title
Donald J. Zuk	President and Chief Executive Officer
Ronald L Goldberg	Senior Vice President and Assistant Secretary
Joseph P. Henkes	Senior Vice President and Secretary
Robert B. Tschudy	Senior Vice President, Chief Financial Officer and Treasurer
Margaret A. McComb	Senior Vice President
Edward G. Marley	Vice President and Controller

Management Agreements

Management Agreement: On March 31, 2001, the Company entered into a management agreement with SCPIE Management Company (SMC), an affiliated California corporation. Under the terms of the agreement, SMC provides the Company with (1) management and support services relating to policy forms, (2) business solicitation, (3) underwriting, rating and issuance of policies, (4) claims administration, (5) reinsurance, (6) corporate legal matters and administrative support and (7) the filing of reports as required by the State of California. As compensation for these services, the Company reimburses SMC for all of its costs incurred in the performance of its duties under this agreement. The Company paid SMC $19.7 million, $19.5 million and $19.9 million in 2004, 2005 and 2006, respectively. The agreement automatically renews in December and may be terminated by either party with 90 days notice. The agreement was approved by the California Department of Insurance (CDI) on April 18, 2001.

Investment Advisory Service Agreement: Under the terms of an investment advisory service agreement dated April 1, 1999, Brown Brothers Harriman & Co. (BBH) manages the Company's investment portfolio in accordance with the Company's investment guidelines. As compensation for these services, BBH is paid a fee of .10% of the total market value of the securities under management. The fee, to be paid quarterly in advance, is subject to an annual minimum of $600,000. During the examination period, the Company paid BBH $1.4 million in fees under the terms of this agreement.

Tax Allocation Agreement: Effective January 1, 1997, the Company entered into a consolidated federal income tax allocation agreement with its affiliated companies, the agreement provides for the Company to file a consolidated federal income tax return with its parent. Allocation of taxes is based upon separate return calculations with inter-company tax balances settled in the quarter subsequent to the filing of the consolidated return. The Company did not submit a prior notice nor did it obtain an approval for the Agreement as required by CICS 1215.5(b)(4). Based upon these findings, it is recommended that the Company submit this agreement to the CDI for approval.

TERRITORY AND PLAN OF OPERATION

The Company is licensed as a multiple line fire and casualty insurer in California and principally writes professional liability insurance for physicians, oral and maxillofacial surgeons, hospitals and other healthcare providers.

The professional liability coverages for sole practitioners and medical groups are issued primarily on a claims-made and reported basis. Coverage is provided for claims reported to the Company during the policy period arising from incidents that occurred at any time the insured was covered by the policy. Each policyholder, upon termination of the claims-made contract, may purchase extended reporting protection, known as tail coverage. This coverage is available to the policyholder in order to cover claims that arise from occurrences during the insured's coverage period, but are first reported to the Company after the insured's coverage period and during the term of applicable tail coverage.

The Company offers business liability and excess personal liability protection to medical groups and clinics on an occurrence basis. Under occurrence protection, the coverage is provided for incidents that occur at any time the policy is in effect, regardless of when the claim is reported.

REINSURANCE

Inter-Company Pooling Agreement

The Company participates in an inter-company pooling agreement with American Healthcare Indemnity Company (AHI), a Delaware corporation and American Healthcare Specialty Insurance Company (AHSIC), an Arkansas corporation, both subsidiaries of the company. Under the terms of the agreement, which commenced in 1996, the Company, AHI and AHSIC pool their medical malpractice business. AHI and AHSIC cede 100% of their business for the policy years 1996 and after to the Company. Prior to 2006, AHI and AHSIC each had a 5% participation interest in the pool with the remaining 90% participation for the Company. For 2006 and after, the participation interests in the pool are AHSIC 15%, AHI 30% and 55% is retained by the Company. The revised agreement was approved on February 8, 2006, by the California Department of Insurance.

Assumed

In 2002, the Company concentrated on divesting its assumed reinsurance operations. On December 2002, the Company entered into a 100% quota share agreement with Rosemont Re, domiciled in Bermuda, where the Company cedes the majority of its assumed unearned reinsurance premiums as of June 30, 2002, for years-ended 2001 and 2002, and almost all of its assumed reinsurance premiums written after that date. World Trade Center losses or any earned premiums or losses prior to June 30, 2002 are not included.

During 2003, the Company continued to participate in one Lloyd's syndicate that specialized in underwriting professional liability excess insurance. As of December 31, 2005, the syndicate was commuted and the Company is no longer exposed to losses related to the syndicate.

Ceded

From 2002 through 2006, the Company retained the first $2 million of losses and loss adjustment expenses per incident for physician coverage up to $20 million. In 2002 and 2003, the Company had additional coverage for approximately 92% of losses in excess of $20 million up to $50 million.

Following is a schedule of the principal ceded reinsurance contracts in force as of December 31, 2006:

Type of Contract	**Reinsurer(s) Name**	**Company's Retention**	**Reinsurer's Maximum Limits**
Excess of Loss			
First Layer	35.00% Hannover Ruckverschrungs 65.00% Various Lloyd's of London Syndicates	$ 2,000,000	$3,000,000 xs $2,000,000
Second Layer	70.00% Various Lloyd's of London Syndicates 30.00% Hannover Ruckverschrungs	$ 5,000,000	$5,000,000 xs $5,000,000
Third Layer	85.00% Various Lloyd's of London Syndicates 15.00% Hannover Ruckverschrungs	$10,000,000	$10,000,000 xs $10,000,000

As of December 31, 2006, reinsurance recoverables, for all ceded reinsurance totaled $71 million or 43% of surplus as regards policyholders. $59 million of the reinsurance recoverables were from the Company's subsidiaries.

ACCOUNTS AND RECORDS

The Company did not comply with the Statements of Statutory Accounting Principles (SSAP) No.10, Paragraph 7, which requires that deferred tax assets (DTA's) and deferred tax liabilities (DTL's) shall be offset and presented as a single amount in the Annual Statement. The Company reported both a "Net deferred tax asset" and "Net deferred tax liability." It is recommended that the Company offset DTA's and DTL's prior to Annual Statement reporting.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2006

Underwriting and Investment Exhibit for the Year Ended December 31, 2006

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2006

Statement of Financial Condition
as of December 31, 2006

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Note
Bonds	$ 304,587,709	$	$ 304,587,709	(1)
Common stocks	69,382,974		69,382,974	
Cash and short-term investments	118,729,143		118,729,143	
Aggregate write-ins for invested assets	35,078		35,078	
Investment income due and accrued	4,075,626		4,075,626	
Uncollected premiums and agents' balances in course of collection	6,545,474	150,027	6,395,447	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	171,011		171,011	
Amounts recoverable from reinsurers	925,756		925,756	
Funds held by or deposited with reinsured companies	2,366,296		2,366,296	
Net deferred tax asset	40,914,661	27,675,107	13,239,554	
Electronic data processing equipment and software	104,930		104,930	
Furniture and equipment, including health care delivery assets	319,785	319,785		
Aggregate write-in for other than invested assets	25,613	25,613		
Total assets	$ 548,184,056	$ 28,170,532	$ 520,013,524	

Liabilities, Surplus and Other Funds				
Losses and loss adjustment expenses			$ 296,486,461	(2)
Commissions payable, contingent commissions and other similar			1,811,466	
Taxes, licenses and fees			24,803	
Current federal and foreign income taxes			680	
Net deferred tax liability			727,164	
Unearned premiums			12,157,664	
Advance premium			18,868,537	
Ceded reinsurance premiums payable			21,711,823	
Remittances and items unallocated			1,063,367	
Provision for reinsurance			467,502	
Payable to parent, subsidiaries and affiliates			2,239,846	
Aggregate write-ins for liabilities			40,035	
Total liabilities			355,599,348	
Common capital stock		$ 2,600,000		
Gross paid-in and contributed surplus		65,977,371		
Unassigned funds (surplus)		95,836,805		
Surplus as regards policyholders			164,414,176	
Total liabilities, surplus and other funds			$ 520,013,524	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2006

Statement of Income

Underwriting Income		
Premiums earned		$ 67,941,914
Deductions:		
Losses and loss expenses incurred	$ 48,659,034	
Other underwriting expenses incurred	15,886,067	
Aggregate write-ins for underwriting deductions	(726,374)	
Total underwriting deductions		63,818,727
Net underwriting gain		4,123,187
Investment Income		
Net investment income earned	$ 15,390,065	
Net realized capital loss	(193,701)	
Net investment gain		15,196,364
Other Income		
Aggregate write-ins for miscellaneous income	$ 856,659	
Total other income		856,659
Net income before federal income taxes		20,176,210
Federal income taxes incurred		(2,196,200)
Net income		$ 22,372,410

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005		$ 145,613,755
Net income	$ 22,372,410	
Change in net unrealized capital losses	(713,746)	
Change in net unrealized foreign exchange capital gain	99,239	
Change in net deferred income tax	(10,870,825)	
Change in nonadmitted assets	10,427,113	
Change in provision for reinsurance	486,230	
Dividends to stockholders	(3,000,000)	
Change in surplus as regards policyholders for the year		18,800,421
Surplus as regards policyholders, December 31, 2006		$ 164,414,176

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2006

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2003, per Examination			$ 109,901,366
Net income	$ 24,871,693	$	
Change in net unrealized capital gains	26,425,196		
Change in net unrealized foreign exchange capital gain	108,641		
Change in net deferred income tax		14,172,469	
Change in nonadmitted assets	13,423,197		
Change in provision for reinsurance	409,103		
Surplus adjustments: Paid-in	2,041,781		
Dividends to stockholders		3,000,000	
Aggregate write-ins for gains in surplus	4,405,668		
Totals	$ 71,685,279	$17,172,469	
Net increase in surplus as regards policyholders			54,512,810
Surplus as regards policyholders, December 31, 2006, per Examination			$ 164,414,176

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based upon a review conducted by a Casualty Actuary from the California Department of Insurance, the Company's reserves for losses and loss adjustment expenses as of December 31, 2006 were found to be reasonably stated.

The Company incurred losses in 2001 in connection with the terrorist attack on the World Trade Center (WTC) through its assumed reinsurance business, but suffered no direct workers' compensation losses. Currently, the Company estimates that its share of the WTC loss will be approximately $45 million net of reinsurance recoverables.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Management Agreements (Page 4): It is recommended that the Company submit its tax allocation agreement to the California Department of Insurance (CDI) for approval in compliance with California Insurance Code (CIC) Section 1215.5(b)(4).

Accounts and Records (Page 8): It is recommended that the Company properly offset the net deferred tax asset and liability prior to Annual Statement reporting in accordance with Statements of Statutory Accounting Principles No.10, Paragraph 7.

Previous Report of Examination

Summary of Significant Findings (Page 2): It was recommended that the Company immediately prepare a comprehensive report to the Commissioner outlining the corrective actions it has and/or intends to take to, among other things, reverse the continued operating losses. The Company outlined corrective actions in a letter sent to the Commissioner on August 23, 2005.

Management and Control – Management Agreements (Page 6): It was recommended that the Company review its allocation of accounting and legal expenses and amend the methodology so that appropriate amounts are allocated (charged) to SCPIE Holding Inc. (SCPIE Holdings). It was also recommended that the Company calculate the amount allocable for current and prior years and that SCPIE Holdings reimburse the Company and its affiliates for any amounts overcharged. The Company has amended its methodology to appropriately charge SCPIE Holdings for accounting and legal charges. SCPIE Holdings also reimbursed the Company for prior years applicable charges.

Management and Control – Affiliated Transactions (Page 7): It was recommended that the Company report (and obtain prior approval if required) all past present and future transactions with its affiliates as required by California Insurance Code (CIC) Sections 1215.4 and 1215.5. The Company appropriately reported all current and prior transactions with affiliates during the period under examination.

Reinsurance – Ceded (Page 11): It was recommended that the Company amend its letters credit to comply with CIC Section 922.5(b). The Company's letters of credit have expired and the Company's current treaties do not require letters of credit.

Comments on Financial Statement Items – Bonds (Page 18): It was recommended that the Company re-file its 2004 Annual Statement to properly reflect the nonadmitting of its bonds that were pledged. The Company alternatively included a disclosure in the footnotes to the 2005 Annual Statement.

Comments on Financial Statements Items – Bonds (Page 18): It was recommended that the Company submit its custodial agreement with the Union Bank of California to the CDI for approval in accordance with CIC Section 1104.9(d). The Company submitted its custodial agreement and it was approved by the CDI.

Comments on Financial Statement Items – Losses and Loss Adjustment Expenses (Page 21): It was recommended that the Company implement procedures to compile detail loss working papers that reconcile to the Annual Statement. The Company has implemented procedures to reconcile the detail loss data to the Annual Statement.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees of SCPIE Management Company during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Constance J. Korte, CFE
Examiner-In-Charge
Department of Insurance
State of California